would place the County and cable system users and subscribers substantially in the same position with regard to rates as if this Settlement Agreement were fully enforceable.

8.3. If such finding of unenforceability applies to Section 4 of this Settlement Agreement, and if the negotiations described in Section 8.2 should result in agreement between the parties on a different method for achieving the goals of this Agreement, the parties shall implement that method as quickly as possible, and it shall be subject to the conditions of this Section.

8.4. If such finding of unenforceability applies to Section 4 of this Settlement Agreement, and if the negotiations described in Section 8.2 do not result in agreement between the parties within sixty days from the date of the final decision referred to in Section 8.2, then either party may call for binding arbitration within thirty days. Such arbitration shall have the goal of placing the parties in the same positions they would occupy if Section 4 of this Settlement Agreement had been fully enforceable. The parties shall select an independent, mutually acceptable arbitrator, who shall have available the full range of appropriate remedies, including but not limited to ordering refunds. The arbitrator's decision shall be final and binding on both parties. SBC-MV and the County will each pay their own costs to appear before the arbitrator and will share the arbitrator's costs equally.

## SECTION 9. MISCELLANEOUS PROVISIONS

9.1. Entire Agreement. This Settlement Agreement constitutes the entire agreement of the parties with respect to the settlement of the claims addressed herein. No statements, promises or inducements inconsistent with this Settlement Agreement made by any party shall be valid or binding, unless in writing and executed by all parties. This Settlement Agreement may only be modified by written amendments hereto signed by all parties.

9.2. Severability. If any part, section, subsection, or other portion of this Settlement Agreement or any application thereof to any person or circumstance is declared void, unconstitutional or invalid for any reason, such part, section, subsection or other portion, or the prescribed application thereof, shall be severable, and the remaining provisions of this Settlement Agreement, and applications thereof not having been declared void, unconstitutional or invalid, shall remain in full force and effect.

9.3. Authority. Each signatory to this Settlement Agreement represents that he or she has the authority to enter into this Settlement Agreement.

9.4. Voluntary Agreement. This Settlement Agreement is freely and voluntarily given by all of the parties, without any duress or coercion, and after each party has consulted with its counsel. Each party hereto has carefully and completely read all of the terms and provisions of this Settlement Agreement. Each party hereto acknowledges that this is a full, complete and final mutual release as set forth previously herein.

9.5. Successors and Assigns. This Settlement Agreement shall be binding upon, and shall inure to the benefit of, the parties hereto and their successors in interest, assigns, personal representatives and heirs.

9.6. Counterparts. This Settlement Agreement may be executed in several counterparts, each of which when so executed shall be deemed to be an original copy, and all of which together shall constitute one agreement binding on all parties hereto, notwithstanding that all parties shall not have signed the same counterpart.

9.7. Headings. The headings in this Settlement Agreement are for convenience of reference only and are not a material part of this Settlement Agreement. They shall not be used in determining the intent of the parties.

9.8. Governing Law. Except as to matters which are governed solely by federal law or regulation, this Settlement Agreement shall be governed by and construed, and the legal relations between the parties determined, in accordance with the laws of the State of Maryland.

IN WITNESS WHEREOF, this Settlement Agreement is executed by the parties as follows:

MONTGOMERY COUNTY, MARYLAND

By Neal Potter — Oct. 15, 1993
Neal Potter — Date
County Executive

MONTGOMERY CABLEVISION LIMITED PARTNERSHIP
By MONTGOMERY CABLEVISION CORPORATION,
General Partner

By Gustave M. Hauser — 10/15/93
Gustave M. Hauser — Date
Chairman

SBC MEDIA VENTURES, INC.

By James S. Kahan (by SAH) — 10/15/93
James S. Kahan — Date
Executive Vice President

ACKNOWLEDGED:

SOUTHWESTERN BELL CORPORATION

By James S. Kahan (by SAH) — 10/15/93
James S. Kahan — Date
Senior Vice President-Corporate
Development and Strategic Planning

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APPROVED AS TO FORM AND LEGALITY.
OFFICE OF COUNTY ATTORNEY
BY A. K. Hart
DATE 10/15/93

1993 Cable Television Price Comparison*
In Order By Full Service Rate

| CABLE SERVICE | Basic Service | Number Channels | Price/ Channel | Full Service | Number Channels | Price/ Channel | Remote Control | Additional Outlets | Converter | Typical** Service Package |
|---|---|---|---|---|---|---|---|---|---|---|
| Fairfax – Media-General | $11.45 | 40 | $0.29 | $33.45 | 71 | $0.47 | $0.41 | $0.00 | $3.05 | $37.32 |
| Loudoun – Cablevision | $12.93 | 24 | $0.54 | $32.63 | 51 | $0.64 | $0.43 | $0.00 | $3.80 | $37.29 |
| Prince Georges' – Multivision | $11.55 | 30 | $0.39 | $28.95 | 60 | $0.48 | $0.00 | $0.00 | $3.05 | $35.05 |
| Arlington – Cable TV Arlington (Hauser) | $12.63 | 18 | $0.70 | $28.25 | 45 | $0.63 | $5.95 | $5.95 | $0.00 | $46.10 |
| Montgomery – CTM (Hauser) | $14.86 | 30 | $0.50 | $28.17 | 57 | $0.49 | $5.27 | $6.34 | $0.00 | $45.05 |
| Washington D.C. – Dist. Cablevis. (TCI) | $11.52 | 19 | $0.61 | $26.09 | 52 | $0.50 | $0.00 | $0.00 | $4.39 | $34.87 |
| Reston – Warner | $13.46 | 26 | $0.52 | $25.53 | 53 | $0.48 | $0.18 | $0.00 | $0.46 | $26.81 |
| Baltimore County – Comcast | $9.03 | 14 | $0.65 | $25.00 | 46 | $0.54 | $0.43 | $0.00 | $2.46 | $30.78 |
| Prince Georges' – Metrovision | $11.54 | 33 | $0.35 | $23.08 | 66 | $0.35 | $0.42 | $0.00 | $2.04 | $27.99 |
| Alexandria – Jones Intercable | $10.28 | 18 | $0.57 | $22.61 | 44 | $0.51 | $0.00 | $0.00 | $1.52 | $25.65 |
| Howard – Comcast | $10.40 | 17 | $0.83 | $21.88 | 46 | $0.48 | $0.33 | $0.00 | $1.87 | $27.13 |
| Baltimore City – United Artist Cable | $10.00 | 12 | $0.83 | $21.48 | 32 | $0.67 | $0.07 | $0.00 | $0.97 | $23.56 |
| Ann Arundel – Jones Intercable North | $8.00 | 22 | $0.36 | $21.20 | 49 | $0.43 | $4.00 | $4.00 | $0.00 | $33.20 |
| Ann Arundel – Jones Intercable South | $8.00 | 22 | $0.36 | $21.20 | 43 | $0.49 | $4.00 | $4.00 | $0.00 | $33.20 |

* All prices include franchise fees, although many operators quoted prices without franchise fees.
Since a number of operators provided initial price quotes which differed from quotes obtained from follow-up verification calls, this survey represents our best attempt to display accurate information.

** A typical service package includes service to 2 television sets each with converters and remote controls.

Montgomery County Office of Consumer Affairs 9/27/93

ATTACHMENT 4

ATTACHMENT 5

TRANSCOMM INC.

CONSULTANTS IN: ENGINEERING AND ECONOMICS
REGULATED INDUSTRIES
COMMUNICATIONS
ENERGY
TRANSPORTATION

September 24, 1993

Mr. Robert P. Hunnicutt
Executive Staff Specialist
Office of Consumer Affairs
Cable Television
Montgomery County Government
100 Maryland Avenue
Rockville, MD 20850

Re: TRANSCOMM Report on SBC-MV Proposed Purchase of CTM

Dear Mr. Hunnicutt:

This will summarize TRANSCOMM's conclusions that relate to acquisition costs.

In the proposed purchase SBC-MV allocated approximately $534 million for the purchase of the assets of CTM. CTM's estimated net book value was approximately $105 million at July 31, 1993, the anticipated closing date of the transactions assumed in the financial projections that TRANSCOMM analyzed. SBC-MV's acquisition premium (the excess of the purchase price over the value of the acquired assets) of approximately $429 million is included as intangible costs of franchise and goodwill and is amortized in SBC-MV's projections along with depreciation.

The amount by which the purchase price exceeds the original asset cost, and the potential recognition of that amount for ratemaking purposes under the FCC's rules, is the most significant cost-of-service issue presently facing the County.

If the acquisition premium costs are permitted for ratemaking under the FCC's proposed cost-of-service approach, cable subscribers could face excessive rates. That is because if SBC-MV earns a given authorized rate of return based on these inflated costs, ratepayers will have to finance the acquisition premium without receiving any tangible benefit, *e.g.*, better service quality. Absent the inclusion of the acquisition premium in the ratemaking calculus, the authorized rate of return could be achieved at a lower level of subscriber rates. For instance, SBC-MV's pro forma financial data indicate that at the projected subscriber rates the company's rate of return calculated on the FCC basis, and *excluding* premium acquisition costs, grows from 13.05 percent in 1994 to 50.67 percent in 2002, which is well above any conceivable authorized rate of return level. However, if SBC-MV were allowed to earn an authorized 10-14 percent rate of return, and include acquisition premium costs for ratemaking purposes, subscribers' rates would have to be much higher than those included in the pro forma financial statements to attain the authorized rate of return.

The impact on individual cable subscribers of allowing the acquisition premium for ratemaking under a cost-of-service approach is substantial. For example, in 1994 the inclusion of acquisition costs for ratemaking could cost the average subscriber an additional $383 annually. On average, monthly subscriber rates would be increased by almost $32, or about double current rates for basic services, to allow the cable company to meet its inflated revenue requirement.

If you have any questions, do not hesitate to call TRANSCOMM.

Sincerely,

Fred J. Kelsey

Fred J. Kelsey

# SAVINGS TO CABLE SUBSCRIBERS UNDER CTM BENCHMARK RATES

| | Units As of August 1993 | Monthly Revenues at Aug. 1993 Rates | | Monthly Revenues at Benchmark Rates | | Subscriber Savings Using Benchmark Rates |
|---|---|---|---|---|---|---|
| | | Rate | Revenues | Rate | Revenues | |
| | (a) | (b) | (c=axb) | (d) | (e=axd) | (f=c−e) |
| Subscribers | | | | | | |
| 1. Total | 163,226 | | | | | |
| 2. With Converters−80% | 130,581 | -- | -- | $2.65 | $346,040 | ($346,040) |
| 3. Without Converters−20% | 32,645 | -- | -- | -- | -- | -- |
| 4. Basic−Grandfathered | 2,000 | $7.40 | $14,800 | $7.40 | 14,800 | 0 |
| 5. Basic− Other | 3,706 | 10.65 | 39,469 | 10.65 | 39,469 | 0 |
| 6. Preferred | 157,520 | 28.17 | 4,437,338 | 27.32 | 4,303,446 | 133,892 |
| Miscellaneous Options | | | | | | |
| 7. Additional outlets | 77,327 | 6.34 | 490,253 | 0.00 | 0 | 490,253 |
| 8. Remotes | 104,835 | 5.27 | 552,480 | 0.28 | 29,354 | 523,126 |
| 9. Total Revenues | | | $5,534,340 | | $4,733,109 | $801,231 |
| 10. Average Cost per Subscriber | | | $33.91 | | $29.00 | $4.91 |
| 11. Total Annual Revenues | | | $66,412,080 | | $56,797,308 | $9,614,772 |
| 12. Total Revenues During Life of Franchise (5 yrs.) | | | $332,060,400 | | $283,986,540 | $48,073,860 |

Notes: Rates include 5% local govt. franchise fee and 1.5% local access programming fee.
CTM did not separately charge for converters as of August 1993.

Source: subscribers and rates from CTM.

CTMBENCH.WK1

## OPERATING CASH FLOW
## UNDER CTM BENCHMARK AND SBC-MV RATES
## BASED ON SBC-MV PRO FORMA FINANCIAL STATEMENTS

| | Operating Cash Flow | |
|---|---|---|
| Year | CTM Benchmark Rates (a) | SBC-MV Pro Forma Rates (b) |
| 1994 | $46,872,000 | $57,449,000 |
| 1995 | 51,988,000 | 63,381,000 |
| 1996 | 57,251,000 | 69,452,000 |
| 1997 | 62,272,000 | 75,321,000 |
| 1998 | 67,810,000 | 81,783,000 |
| 1999 | 73,845,000 | 88,822,000 |
| 2000 | 80,761,000 | 96,782,000 |
| 2001 | 87,967,000 | 105,112,000 |
| 2002 | 95,399,000 | 113,725,000 |
| Total | $624,165,000 | $751,827,000 |

IN ORDER FOR SBC-MV TO ATTAIN THE OPERATING CASH FLOWS IN ITS ORIGINAL PRO FORMA FINANCIAL STATEMENTS (COL. B), BASIC AND OTHER HOME BILLING RATES WOULD HAVE TO BE INCREASED BY 17% ABOVE BENCHMARK RATES IN 1994

CTMBENCH.WKJ

TRANSCOMM INC.

CONSULTANTS IN: ENGINEERING AND ECONOMICS
REGULATED INDUSTRIES
COMMUNICATIONS
ENERGY
TRANSPORTATION

September 23, 1993

Mr. Robert P. Hunnicutt
Executive Staff Specialist
Office of Consumer Affairs
Cable Television
Montgomery County Government
100 Maryland Avenue
Rockville, MD 20850

Dear Mr. Hunnicutt:

With respect to the proposed sale of the Montgomery County and Arlington County cable television (CATV) systems to the Southwestern Bell Corporation, TRANSCOMM has reviewed various correspondence to and from the systems' owner, Mr. Gustave Hauser (hereinafter Hauser), regarding the appropriateness of the purchase price of $650 million.

In particular, Salomon Brothers sent a letter to Hauser on August 10, 1993 indicating that the "$650 million dollars [sic] paid represents an operating cash flow multiple of 10.7 times, which is lower than the other four recent large private market transactions, making the value paid by Southwestern Bell reasonable and certainly within the bounds of comparability." It is claimed that the industry gives more weight to operating cash flow multiples than to the purchase price per subscriber.

On August 18, 1993, Hauser submitted to the Montgomery County Government a summary of recently announced or proposed CATV company sales obtained from the published newsletter of Paul Kagan Associates, Inc. (PKA). The summary shows that the proposed sale produces a cash flow multiple that is slightly above the average for the entire list of over 50 systems cited in the newsletter (10.6 versus 10.3). Hauser claims that the PKA analysis confirms that the $650 million proposed purchase price is thereby consistent with what is occurring within the industry.

The Salomon Brothers letter attempts to make the case that the price SBC-MV proposes to pay for the Montgomery County system is not "high" and therefore should be of no concern to the County as it reviews the proposed transfer. In fact, this is not a correct conclusion that can be derived from the use of a cash flow

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multiple. A more relevant comparison for addressing subscriber pricing concerns is the purchase price paid per subscriber. The fact that the cash flow multiple is lower in one transaction than another only gives insight into the level of certainty the purchaser associates with the projected cash flows. It does not resolve the effect the absolute price paid will have on subscriber prices.

The same PKA information provided by Hauser shows that the Southwestern Bell proposal results in a cost of $2,889 per subscriber. This is by far the highest figure of the over 50 transactions listed (it is 25 percent higher than the next highest of $2,314). In addition, even after adjusting the PKA data for penetration, the Southwestern Bell proposal ranks as the highest. This fact alone provides a flag that further analysis of the underlying data is required to determine if cable rates are excessive at the present time or are planned to be increased in the future.

A cash flow multiple approach does not address the issue of an appropriate purchase price based on future projected rate levels for CATV subscribers. The calculation of the multiple is simply the ratio of the purchase price to cash flow, however the cash flow may be calculated. The multiple of 10.7 is the *ratio* of the numerator to the denominator. The multiple of 10.7 provides no indication of whether existing subscriber rates are too high, too low, or at an appropriate level. This can be shown by the following illustration.

The numerator of the "multiple" equation is the purchase price and the denominator is cash flow. Cash flow is comprised of several components which generally include revenues less cash expenses (excludes depreciation and other noncash expenses). Thus, a multiple of 10.7 can be obtained with an infinite combination of purchase price and revenue levels. The following simple example will demonstrate this phenomenon.

Implied in the multiple of 10.7 and a purchase price of $650 million is a cash flow of about $61 million (650 ÷ 10.7). Assume that revenues are $110 million, which implies that the other components in total are $49 million (110-61). Since these other components generally will not change significantly if revenues change, they will be kept constant for the example. Thus, the "multiple" equation is:

$$\text{Multiple} = \frac{\text{Purchase Price}}{\text{Revenues - \$49 M}}$$

The following combinations of purchase price and revenues produce the same multiple of 10.7:

| | | | | | |
|---|---|---|---|---|---|
| Purchase Price-M | $650 | $600 | $550 | $500 | $300 |
| Revenues-M | 110.0 | 105.0 | 100.4 | 95.7 | 77.0 |

Since revenues are a function of rates (and demand, which is constant in the example), the preceding example shows why it is not possible to ascertain the appropriateness of rate levels from the cash flow multiple. Excessive rates produce high revenues, which in turn lead to high operating cash flows. Thus, the purchase price would be lower if rate levels were lower. Said another way, the higher operating cash flows resulting from excessive rates drag down the multiple.

A more appropriate method to gauge whether the purchase price will force future CATV rate levels higher is to compare the purchase price per subscriber with other recent purchases. If a particular purchase price per subscriber is relatively high compared to other recent transactions, the purchaser will have a strong incentive to capture excessive monopoly cable profits which in turn generate high revenues in relation to costs. Another possibility for a high per subscriber purchase price is that the price may be in anticipation of an expansion in the number of system subscribers through increased CATV penetration. However, adjusting the PKA data to reflect penetration tends to dispel this notion, *e.g.*, the same transaction has the highest ranked purchase price per subscriber where the data is adjusted solely for penetration.

A comparison of cash flow multiples will not enable a determination of the appropriateness of cable rate levels. It does provide insight into the incentive of the purchaser to maintain and increase existing rate levels. A comparison of purchase price per subscriber data is a more meaningful indication of whether subscriber rates are too high and may be forced even higher by the purchase price.

If you have any questions, do not hesitate to call TRANSCOMM.

Sincerely,

Fred J. Kelsey

Fred J. Kelsey

## RATE REGULATION INDUSTRY COMPARISON

| | Telephone | Broadcast | Electric Power | Cable |
|---|---|---|---|---|
| Who regulates rates | State public utilities Commissions and FCC 47 USC §§ 204-205 | N/A No subscriber rates 47 USC §§ 3(h), 303 | State public utilities commissions and FERC 16 USC 824(a) | Franchising authorities and FCC 47 USC § 623(a)-(c) |
| How excess acquisition costs are treated at federal level | Excluded from rate base 47 CFR § 65.820 | N/A | Excluded from rate base; used and useful | ? |
| Who approves transfers | State public utilities commissions and FCC §§ 214(a), 221(a) | FCC § 310(d) | State public utilities commissions and FERC 16 USC § 824b(a); 15 U.S.C. § 79(e) | Franchising authorities 47 USC § 617(e) |

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ATTACHMENT 6

# Pro Forma

## Income Statement

Montgomery

| | Partial* 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 |
|---|---|---|---|---|---|---|---|---|---|---|
| Revenue | 16,650 | 107,638 | 118,588 | 129,607 | 140,030 | 150,774 | 161,536 | 172,583 | 185,103 | 198,375 |
| Operating Expenses | 8,153 | 52,029 | 57,005 | 61,692 | 66,456 | 71,352 | 76,232 | 81,157 | 86,649 | 92,467 |
| EBDIAT | 8,497 | 55,609 | 61,583 | 67,915 | 73,575 | 79,422 | 85,304 | 91,426 | 98,454 | 105,908 |
| Depreciation | 2,635 | 15,809 | 17,058 | 18,366 | 19,740 | 21,177 | 22,670 | 24,270 | 25,954 | 27,715 |
| Operating Profit | 5,862 | 39,800 | 44,525 | 49,549 | 53,835 | 58,245 | 62,634 | 67,156 | 72,500 | 78,193 |
| Amortization of Intangibles | 2,318 | 13,910 | 13,910 | 13,910 | 13,910 | 13,910 | 13,910 | 13,910 | 13,910 | 13,910 |
| Amortization of Goodwill | 536 | 3,214 | 3,214 | 3,214 | 3,214 | 3,214 | 3,214 | 3,214 | 3,214 | 3,214 |
| EBIT | 3,008 | 22,676 | 27,401 | 32,425 | 36,711 | 41,121 | 45,510 | 50,032 | 55,376 | 61,069 |
| Interest (Income) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Interest Expense | 4,730 | 27,671 | 26,252 | 24,833 | 22,704 | 19,866 | 17,028 | 13,658 | 9,756 | 5,853 |
| EBT | (1,722) | (4,995) | 1,150 | 7,593 | 14,007 | 21,255 | 28,482 | 36,374 | 45,621 | 55,215 |
| Income Taxes | 0 | 0 | 455 | 3,003 | 5,540 | 8,406 | 11,265 | 14,386 | 18,043 | 21,838 |
| **Net Income** | (1,722) | (4,995) | 695 | 4,590 | 8,467 | 12,849 | 17,217 | 21,988 | 27,578 | 33,378 |

* Partial 1993 financial data reflects SBC - MV assuming ownership 11/1/93.

ATTACHMENT 7

# Pro Forma

## Balance Sheet

Montgomery

| ASSETS | 12/31/93 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 |
|---|---|---|---|---|---|---|---|---|---|---|
| Cash & Marketable Securities | 2,000 | 2,000 | 2,000 | 2,000 | 2,000 | 2,000 | 2,000 | 2,000 | 2,000 | 2,000 |
| Accounts Receivable | 4,410 | 4,843 | 5,295 | 5,735 | 6,184 | 6,633 | 7,125 | 7,125 | 7,125 | 7,125 |
| Other Current Assets | 1,845 | 2,026 | 2,215 | 2,400 | 2,587 | 2,775 | 2,875 | 2,975 | 3,075 | 3,175 |
| Total Current Assets | 8,255 | 8,869 | 9,510 | 10,135 | 10,771 | 11,408 | 12,000 | 12,100 | 12,200 | 12,300 |
| Property, Plant & Equipment | 145,282 | 158,086 | 170,583 | 183,664 | 197,398 | 211,773 | 226,698 | 242,704 | 259,541 | 277,151 |
| Accumulated Depreciation | (2,635) | (18,444) | (35,502) | (53,868) | (73,608) | (94,785) | (117,455) | (141,725) | (167,679) | (195,394) |
| Net Property, Plant & Equip. | 142,647 | 139,642 | 135,081 | 129,796 | 123,790 | 116,988 | 109,243 | 100,979 | 91,862 | 81,757 |
| Other Assets | 495 | 543 | 594 | 643 | 694 | 744 | 799 | 868 | 944 | 1,025 |
| Intangibles: | | | | | | | | | | |
| Franchise Licenses | 339,640 | 325,730 | 311,820 | 297,910 | 284,000 | 270,090 | 256,180 | 242,270 | 228,360 | 214,450 |
| Permanent Goodwill* | 39,351 | 37,744 | 36,137 | 34,530 | 32,923 | 31,316 | 29,709 | 27,102 | 26,495 | 24,888 |
| Goodwill | 39,115 | 37,508 | 35,901 | 34,294 | 32,687 | 31,080 | 29,473 | 27,866 | 26,259 | 24,652 |
| Total Intangibles | 418,106 | 400,982 | 383,858 | 366,734 | 349,610 | 332,486 | 315,362 | 298,238 | 281,114 | 263,990 |
| TOTAL ASSETS | 569,503 | 555,769 | 534,751 | 512,712 | 490,270 | 467,031 | 442,915 | 418,468 | 393,266 | 367,143 |

| LIABILITIES & SH EQUITY | 12/31/93 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 |
|---|---|---|---|---|---|---|---|---|---|---|
| Accounts Payable | 12,111 | 13,000 | 14,073 | 12,096 | 14,666 | 15,098 | 12,502 | 14,098 | 12,500 | 11,500 |
| Other Current Liabilities | 10,934 | 12,009 | 13,130 | 10,125 | 11,334 | 11,328 | 8,058 | 9,331 | 6,499 | 7,000 |
| Total Current Liabilities | 23,045 | 25,009 | 27,203 | 22,221 | 26,000 | 26,426 | 20,560 | 23,429 | 18,999 | 18,500 |
| Bank Debt | 344,000 | 326,800 | 309,600 | 292,400 | 258,000 | 223,600 | 189,200 | 141,900 | 94,600 | 47,300 |
| Deferred Taxes | 14,180 | 20,677 | 13,970 | 9,523 | 9,235 | 7,121 | 6,054 | 4,050 | 3,000 | 2,000 |
| TOTAL LIABILITIES | 381,225 | 372,486 | 350,773 | 324,144 | 293,235 | 257,147 | 215,814 | 169,379 | 116,599 | 67,800 |
| Paid-in-Capital | 190,000 | 190,000 | 190,000 | 190,000 | 190,000 | 190,000 | 190,000 | 190,000 | 190,000 | 190,000 |
| Retained Earnings | (1,722) | (6,717) | (6,022) | (1,432) | 7,035 | 19,884 | 37,101 | 59,089 | 86,667 | 109,343 |
| TOTAL SH EQUITY | 188,278 | 183,283 | 183,978 | 188,568 | 197,035 | 209,884 | 227,101 | 249,089 | 276,667 | 299,343 |
| TOTAL LIAB. & SH EQUITY | 569,503 | 555,769 | 534,751 | 512,712 | 490,270 | 467,031 | 442,915 | 418,468 | 393,266 | 367,143 |

* Permanent Goodwill balance as required by FAS #109.

## Pro Forma

# Funds Flow Statement

Montgomery

| SOURCES & USES OF CASH | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 |
|---|---|---|---|---|---|---|---|---|---|---|
| Beginning Cash | 0 | 2,000 | 2,000 | 2,000 | 2,000 | 2,000 | 2,000 | 2,000 | 2,000 | 2,000 |
| Sources : | | | | | | | | | | |
| Net Income | (1,722) | (4,995) | 695 | 4,590 | 8,467 | 12,849 | 17,217 | 21,988 | 27,578 | 33,378 |
| Depreciation | 2,635 | 15,809 | 17,058 | 18,366 | 19,740 | 21,177 | 22,670 | 24,270 | 25,954 | 27,715 |
| Amortization of Intangibles | 2,318 | 13,910 | 13,910 | 13,910 | 13,910 | 13,910 | 13,910 | 13,910 | 13,910 | 13,910 |
| Amortization of Goodwill | 536 | 3,214 | 3,214 | 3,214 | 3,214 | 3,214 | 3,214 | 3,214 | 3,214 | 3,214 |
| Increase in Deferred Taxes | | 6,497 | (6,707) | (4,447) | (288) | (2,114) | (1,067) | (2,004) | (1,050) | (1,000 |
| Increase in Debt | 344,000 | (17,200) | (17,200) | (17,200) | (34,400) | (34,400) | (34,400) | (47,300) | (47,300) | (47,300 |
| Equity | 190,000 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Increase in Accounts Payable | 0 | 889 | 1,073 | (1,977) | 2,570 | 432 | (2,596) | 1,596 | (1,598) | (1,000 |
| Increase in Other Current Liab. | 0 | 1,075 | 1,121 | (3,005) | 1,209 | (6) | (3,270) | 1,273 | (1,832) | 501 |
| Total Sources of Funds | 537,767 | 19,199 | 13,164 | 13,451 | 14,422 | 15,062 | 15,678 | 16,947 | 18,876 | 29,418 |
| Uses : | | | | | | | | | | |
| Capital Expenditures | 1,767 | 18,537 | 12,472 | 12,777 | 13,735 | 14,375 | 15,031 | 13,987 | 14,569 | 15,240 |
| Increase in Accounts Receivabl | 0 | 433 | 452 | 440 | 449 | 449 | 492 | 0 | 0 | 0 |
| Increase in Other Cur. Assets | 0 | 181 | 189 | 185 | 187 | 188 | 100 | 100 | 100 | 100 |
| Increase in Other Assets | 0 | 48 | 51 | 49 | 51 | 50 | 55 | 69 | 76 | 81 |
| System Purchase | 534,000 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Common Dividends | | 0 | 0 | 0 | 0 | 0 | 0 | 2,791 | 4,131 | 13,997 |
| Total Uses of Funds | 535,767 | 19,199 | 13,164 | 13,451 | 14,422 | 15,062 | 15,678 | 16,947 | 18,876 | 29,418 |
| Ending Cash | 2,000 | 2,000 | 2,000 | 2,000 | 2,000 | 2,000 | 2,000 | 2,000 | 2,000 | 2,000 |

| DEBT REPAYMENT SCHEDULE | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 |
|---|---|---|---|---|---|---|---|---|---|---|
| Beginning Debt | 344,000 | 344,000 | 326,800 | 309,600 | 292,400 | 258,000 | 223,600 | 189,200 | 141,900 | 94,600 |
| Principle Repayment | 0 | 17,200 | 17,200 | 17,200 | 34,400 | 34,400 | 34,400 | 47,300 | 47,300 | 47,300 |
| **Ending Debt** | 344,000 | 326,800 | 309,600 | 292,400 | 258,000 | 223,600 | 189,200 | 141,900 | 94,600 | 47,300 |

| INTEREST EXP. SCHEDULE | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 |
|---|---|---|---|---|---|---|---|---|---|---|
| Interest Expense * | 4,730 | 27,671 | 26,252 | 24,833 | 22,704 | 19,866 | 17,028 | 13,658 | 9,756 | 5,853 |

* Interest Expense is based on the average debt outstanding balance at the end of the year @ 8.25%.

## Pro Forma

# Operating Assumptions

Montgomery

| | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 |
|---|---|---|---|---|---|---|---|---|---|---|
| Homes Passed - Beginning | 298,860 | 305,423 | 312,558 | 319,813 | 327,190 | 334,691 | 342,319 | 349,076 | 355,965 | 362,988 |
| Homes Passed Built | 6,563 | 7,135 | 7,255 | 7,377 | 7,501 | 7,628 | 6,757 | 6,889 | 7,023 | 7,023 |
| Homes Passed - Ending | 305,423 | 312,558 | 319,813 | 327,190 | 334,691 | 342,319 | 349,076 | 355,965 | 362,988 | 370,011 |
| | | | | | | | | | | |
| Basic SUBS - Beginning | 175,429 | 181,720 | 192,474 | 202,849 | 213,754 | 224,121 | 233,814 | 242,005 | 250,483 | 259,256 |
| Connecting SUBS | 61,514 | 66,179 | 67,156 | 68,717 | 69,149 | 69,084 | 70,152 | 72,609 | 75,151 | 77,683 |
| Disconnecting SUBS | (55,223) | (55,425) | (56,780) | (57,812) | (58,782) | (59,392) | (61,960) | (64,132) | (66,378) | (68,703 |
| SUBS - Ending | 181,720 | 192,474 | 202,849 | 213,754 | 224,121 | 233,814 | 242,005 | 250,483 | 259,256 | 268,236 |
| | | | | | | | | | | |
| *Average BASIC Subs* | *174,312* | *183,671* | *194,490* | *205,098* | *215,452* | *225,474* | *234,665* | *242,909* | *251,608* | *260,436* |
| % Growth | | 5.4% | 5.9% | 5.5% | 5.0% | 4.7% | 4.1% | 3.5% | 3.6% | 3.5% |
| | | | | | | | | | | |
| Average Pay Units | 161,151 | 169,804 | 176,888 | 183,461 | 189,490 | 194,922 | 199,348 | 202,708 | 209,967 | 217,334 |
| | | 5.4% | 4.2% | 3.7% | 3.3% | 2.9% | 2.3% | 1.7% | 3.6% | 3.5% |

# Pro Forma

## Expense Assumptions

Montgomery

| | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Programming** | | | | | **Annual Percentage Increase** | | | | | |
| *Basic* | 14.4% | 13.7% | 14.3% | 10.7% | 10.3% | 9.8% | 9.2% | 8.7% | 8.7% | 8.7% |
| *Pay* | 8.1% | 7.3% | 9.6% | 9.2% | 5.0% | 4.6% | 4.0% | 3.5% | 3.6% | 3.5% |
| *PPV* | 6.8% | 17.0% | 17.9% | 17.6% | 5.0% | 4.6% | 4.0% | 3.5% | 3.6% | 3.5% |
| *Copyright* | -25.8% | 10.8% | 11.2% | 10.7% | 5.0% | 4.6% | 4.0% | 3.5% | 3.6% | 3.5% |
| **Operations/Engineering** | | | | | | | | | | |
| *Engineering* | 11.3% | 3.0% | 6.1% | 5.0% | 8.0% | 7.7% | 7.1% | 6.8% | 7.3% | 7.2% |
| *Operations* | 16.0% | 4.1% | 6.4% | 5.4% | 8.0% | 7.7% | 7.1% | 6.8% | 7.3% | 7.2% |
| **Marketing** | | | | | | | | | | |
| *Direct Sales* | 2.9% | -0.9% | 2.2% | 2.3% | 8.0% | 7.7% | 7.1% | 6.8% | 7.3% | 7.2% |
| *Telemarketing* | 3.8% | 1.9% | 2.4% | 2.5% | 8.0% | 7.7% | 7.1% | 6.8% | 7.3% | 7.2% |
| *Ad Sales / CSR* | 10.7% | 5.3% | 7.7% | 7.6% | 8.0% | 7.7% | 7.1% | 6.8% | 7.3% | 7.2% |
| **Administrative** | | | | | | | | | | |
| *Bad Debt Expense* | 14.9% | 7.7% | 10.4% | 9.2% | 8.0% | 7.7% | 7.1% | 6.8% | 7.3% | 7.2% |
| *Administrative* | 3.9% | -0.8% | 2.1% | 2.9% | 8.0% | 7.7% | 7.1% | 6.8% | 7.3% | 7.2% |

# Pro Forma

## Operating Cash Flow Summary

Montgomery

| | partial * 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 |
|---|---|---|---|---|---|---|---|---|---|---|
| Basic Revenue | 9,156 | 59,910 | 65,659 | 71,664 | 77,916 | 84,395 | 90,909 | 97,397 | 104,415 | 111,862 |
| Other Home Billing | 1,965 | 5,023 | 5,554 | 6,102 | 6,663 | 7,243 | 7,840 | 8,410 | 9,026 | 9,680 |
| Pay Revenue | 3,289 | 21,284 | 23,222 | 24,846 | 25,751 | 26,583 | 27,286 | 27,852 | 28,984 | 30,140 |
| PPV Revenue | 696 | 4,863 | 5,735 | 6,744 | 7,525 | 8,369 | 9,261 | 10,198 | 11,243 | 12,392 |
| Digital Audio | 146 | 1,301 | 1,709 | 2,152 | 2,612 | 3,100 | 3,608 | 4,507 | 5,486 | 6,528 |
| Advertising Revenue | 388 | 2,635 | 2,985 | 3,353 | 3,738 | 4,138 | 4,541 | 4,945 | 5,374 | 5,823 |
| Other Revenue(Equipment/Instal) | (5) | 6,053 | 6,488 | 6,836 | 7,279 | 7,744 | 8,232 | 8,742 | 9,278 | 9,842 |
| Franchise Fee Revenue | 782 | 5,053 | 5,568 | 6,085 | 6,574 | 7,079 | 7,584 | 8,102 | 8,690 | 9,313 |
| Program Access Fee Revenue | 235 | 1,516 | 1,670 | 1,825 | 1,972 | 2,124 | 2,275 | 2,431 | 2,607 | 2,794 |
| **Total Revenue** | **16,650** | **107,638** | **118,588** | **129,607** | **140,030** | **150,774** | **161,536** | **172,583** | **185,103** | **198,375** |
| | | | | | | | | | | |
| Programming | 2,983 | 19,853 | 22,320 | 24,705 | 26,494 | 28,324 | 30,133 | 31,906 | 33,824 | 35,855 |
| Cost of Services | 1,387 | 8,623 | 9,162 | 9,643 | 10,418 | 11,218 | 12,018 | 12,840 | 13,772 | 14,759 |
| Marketing | 1,581 | 9,825 | 10,880 | 11,734 | 12,677 | 13,650 | 14,624 | 15,624 | 16,758 | 17,959 |
| Administrative | 1,187 | 7,158 | 7,406 | 7,700 | 8,319 | 8,958 | 9,597 | 10,254 | 10,997 | 11,786 |
| Franchise Fees | 782 | 5,053 | 5,568 | 6,085 | 6,574 | 7,079 | 7,584 | 8,102 | 8,690 | 9,313 |
| Program Access Fees | 235 | 1,516 | 1,670 | 1,825 | 1,972 | 2,124 | 2,275 | 2,431 | 2,607 | 2,794 |
| | | | | | | | | | | |
| **Total Operating Expense** | **8,153** | **52,029** | **57,005** | **61,692** | **66,456** | **71,352** | **76,232** | **81,157** | **86,649** | **92,467** |
| **Operating Cash Flow** | **8,497** | **55,609** | **61,583** | **67,915** | **73,575** | **79,422** | **85,304** | **91,426** | **98,454** | **105,908** |

* Partial 1993 financial data reflects SBC - MV assuming ownership 11/1/93.

## Pro Forma

## Assumptions for Basic Rates *

Montgomery

| | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 |
|---|---|---|---|---|---|---|---|---|---|---|
| Basic | $13.95 | $14.44 | $14.94 | $15.47 | $16.01 | $16.57 | $17.15 | $17.75 | $18.37 | $19.01 |
| Annual % Increase | | 3.5% | 3.5% | 3.5% | 3.5% | 3.5% | 3.5% | 3.5% | 3.5% | 3.5% |
| Preferred Basic | $26.45 | $27.38 | $28.33 | $29.33 | $30.35 | $31.41 | $32.51 | $33.65 | $34.83 | $36.05 |
| Annual % Increase | | 3.5% | 3.5% | 3.5% | 3.5% | 3.5% | 3.5% | 3.5% | 3.5% | 3.5% |

* Rates for basic cable television service are projected to rise at the rate of inflation (assumed to be 3.5%). Rates are influenced by a number of factors, including but not limited to: changes in regulation, programming availability and expense, competition, technology, inflation and market demand for CATV services.

Table 4

**SELECTED DATA**
12 Months, 1990 - 1992 & 5 Months, 1993
(Amounts in millions except for subscribers)

| | 1990 | 1991 | 1992 | 1993 (5 mos.) |
|---|---|---|---|---|
| Total Revenues | $12.8 | $14.6 | $15.6 | $ 6.8 |
| Operating Profit (Loss) | (1.3) | (1.6) | (0.2) | (0.8) |
| Operating Cash Flow | 4.9 | 5.1 | 5.7 | 2.6 |
| Adjusted Oper. Cash Flow[1] | 6.3 | 6.8 | 7.5 | 3.4 |
| Net Plant Assets | 14.9 | 14.9 | 16.5 | 16.9 |
| Total Assets[2] | 31.1 | 27.2 | 64.1 | 61.8 |
| Average # Basic Subs | 29,846 | 32,708 | 33,673 | 34,246 |

1. Adjustment to exclude parent company management fees and allocated overhead.
2. Amounts for 1992 & 1993 restated to reflect sale of system